Audit Report

AuSable Valley
Community Mental Health Authority

October 1, 1998 – September 30, 2001

Office of Audit
Grayling Regional Office

October 2005

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JANET OLSZEWSKI
DIRECTOR

October 5, 2005

CERTIFIED MAIL

William Williams, Chairperson
AuSable Valley Community
Mental Health Authority Board of Directors
1199 West Harris Ave.
Tawas City, MI 48764
and
Floyd R. Smith, PhD, Executive Director
AuSable Valley Community
Mental Health Authority
1199 West Harris Ave.
Tawas City, MI 48764
and
Ms. Janet Olszewski, Director
Department of Community Health
Lewis Cass Building
Lansing, MI 48913

Dear Dr. Williams, Dr. Smith, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the AuSable Valley Community Mental Health Authority for the period October 1, 2000 through September 30, 2001 and selected areas prior to October 1, 1999 and subsequent to September 30, 2001.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; financial status reports; explanations of audit adjustments; contract reconciliation and cash settlement summaries; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

The final report does not address the January 2001 through September 2002 spend-down issue that was referenced in the agency's response to the Preliminary Analysis. Fiscal year 01/02 was not part of our review. Additionally, the calculations of the Medicaid eligible population and capitation payments for fiscal year 00/01 were not part of the audit scope. A request for a review of this matter should be made to the Bureau of Community Mental Health Services.

If the agency disagrees with the MDCH audit findings, the agency may use the dispute resolution process as specified in Section 3.16 of the Managed Specialty Supports and Services Contract (MSSSC), and/or the Medicaid Provider Reviews and Hearings. Both administrative remedies are described below.

If the agency chooses to engage Section 3.16 of the MSSSC (dispute resolution process), the agency must provide written notification to the MDCH of their intent within 30 days of receipt of this notice. The written notification must include the nature of, and any proposed resolution to, the dispute; and copies of all relevant documentation. The final decision authority regarding disputes arising out of MDCH financial reviews and/or audits has been delegated to the MDCH Administrative Tribunal.

If the agency chooses to use the Medicaid Provider Reviews and Hearings, the agency must request a conference or hearing within 30 days of receipt of this notice. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If the agency disagrees with this adverse action, the agency has a right to request a preliminary conference, bureau conference or an administrative hearing pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. The request should identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The agency should also include any substantive documentary evidence to support their position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405.

If the agency chooses to request a dispute resolution process; and/or a preliminary conference, bureau conference, or administrative hearing, the request(s) must be sent within 30 days of receipt of this letter to:

Administrative Tribunal & Appeals Division
Michigan Department of Community Health
1033 S. Washington
P.O. Box 30763
Lansing, Michigan 48909

If MDCH does not receive a request for a preliminary conference, bureau conference, administrative hearing, or dispute resolution process within 30 days of receipt of this notice, MDCH will implement the adjustments as outlined in this final report.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Ray Bankert, Regional Manager
Grayling Regional Office
Office of Audit

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DESCRIPTION OF AGENCY

AuSable Valley Community Mental Health Authority (AVCMHA) operates as a joint venture between Iosco, Ogemaw, and Oscoda counties. AVCMHA operates under the provisions of Act 258 of 1974, the Mental Health Code, Sections 330.1001 – 330.2106. Effective September 27, 1996 AVCMHA became a Community Mental Health Authority.

During the fiscal years audited, AVCMHA provided outpatient, residential, partial day, case management, prevention, emergency, and Omnibus Budget Reconciliation Act (OBRA) services to residents within Iosco, Oscoda, and Ogemaw Counties.

AVCMHA's administrative offices are located in Tawas City. AVCMHA's board consists of 12 members appointed for three-year terms by the county boards of commissioners. The board members reside within the three counties served by AVCMHA.

As of October 1, 2002, AVCMHA affiliated with North Country CMHSP and Northeast CMHSP to form a titled affiliation for the Medicaid contract as the Northern Affiliation Prepaid Inpatient Health Plan (PIHP). As a result of the affiliation and other policy changes at MDCH, the flow of Medicaid funds from MDCH and various reporting responsibilities changed. However, the underlying cost principles and the shared-risk concept remain unchanged.

FUNDING METHODOLOGY

AVCMHA contracted with the Michigan Department of Community Health (MDCH) under a Managed Specialty Supports and Services Contract (MSSSC) for FY 2000-2001, FY 1999-2000, and FY 1998-1999. AVCMHA reported expenditures of $11.1 million in FY 2000-2001, $11.0 million in FY 1999-2000, and $10.3 million in FY 1998-1999. MDCH provided the funding under these contracts to AVCMHA with both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology. An attachment to each contract includes the specific rates paid on the PEPM basis. MDCH also distributed the non-Medicaid full-year State Mental Health General Funds (GF) based on separate formulas attached to the contracts. AVCMHA also received special and/or designated funds, fee for services funds, and MIChild capitated funds under special contractual arrangements with MDCH. Each agreement specifies the funding methodologies. MIChild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

The purpose of this review was to determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to assess the agency's performance relative to the requirements and best practice guidelines set forth in the contracts.

Audit Objectives

1. To assess AVCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

2. To assess AVCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practices guidelines.

3. To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and to identify any balance due to/from AVCMHA.

SCOPE AND METHODOLOGY

Our review primarily included an examination of AVCMHA's records and activities for the period October 1, 2000 through September 30, 2001**.** However, we also reviewed prior and subsequent periods pertaining to 1.) fixed asset purchases, 2.) QHP revenue, 3.) FIA Home Help revenue, 4.) internal service fund ("ISF") for risk, 5.) payments made to the AuSable Valley Community Mental Health Foundation, and 6.) contributions received from the AuSable Valley Community Mental Health Foundation. We reviewed internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed AVCMHA's executive, financial, and administrative staff. We reviewed AVCMHA's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status report ("FSR") in compliance with the MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from January through May 2003.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

FINANCIAL REPORTING

Objective 1: To assess AVCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: AVCMHA did not accurately report their financial activity to MDCH as required by the MSSSC, applicable statutory requirements, Medicaid regulations, and applicable accounting standards. We found exceptions related to the AVCMH Foundation (finding 1), capital asset purchases (finding 2), Medicaid Savings used as local match (finding 3), contract revenues and expenditures (finding 4), the Board Administration allocation (finding 5), the payroll allocation (finding 6), and Home Help earned contracts expenditures (finding 7).

Finding

1. Unallowable Rent Paid to the AVCMH Foundation

AVCMHA improperly reported lease payments made to the AuSable Valley Community Mental Health Foundation ("Foundation") in violation of the MSSSC, the Mental Health Code, and OMB Circular A-87.

Between FY 1992-1993 and FY 2001-2002, AVCMHA paid $2,535,016 in lease payments to the Foundation, a not-for-profit organization created in May 1990 by AVCMHA. Based on available information, we calculated the Foundation's cost of the properties leased to AVCMHA at $1,489,725. Because the lease payments from AVCMHA to the Foundation are under less-than-arms-length leases and sale and leaseback arrangements, AVCMHA was entitled to charge MDCH only for the amount that would be allowed had AVCMHA owned the property, which is the underlying cost.

AVCMHA created the Foundation in 1990 to acquire and lease facilities to AVCMHA and their consumers. Another purpose of the Foundation (according to the September 1, 1992 Foundation board minutes) is "to enable the Mental Health Services Board to use all funds provided by the state to provide mental health services, rather than being in a situation that some funds had to be returned to the state."

In FY 1992-1993, AVCMHA transferred title for five of their properties to the Foundation at net book value. In that same fiscal year the Foundation constructed a new office building on one of the sites and purchased two additional properties. AVCMHA held lease agreements with the Foundation and paid rent on all seven properties (three office sites and four consumer residences) based on estimated fair market rental value.

In July 1996, MDCH issued an audit report for FY 1993-1994. The report included a determination that the Foundation was a related party to <u>and</u> a component unit of AVCMHA based on Governmental Accounting Standards Board (GASB) Statement No. 14. The FY 1993-1994 audit report cited the following aspects of the relationship showing that the

Foundation was a component unit of AVCMHA due to AVCMHA's power to appoint the Foundation's governing body and AVCMHA's ability to impose its will on the Foundation:

1. AVCMHA established the Foundation.
2. AVCMHA is the sole voting member of the Foundation.
3. AVCMHA appoints and removes Foundation board members.
4. The Foundation conducts business out of the AVCMHA office including the maintenance of the Foundation's accounting records by the AVCMHA finance director.
5. AVCMHA's director is an officer of the Foundation Board.
6. The Foundation exists solely to serve AVCMHA.
7. Upon dissolution, the Foundation's assets are to be distributed to AVCMHA.

The audit report recommended that all revenues and expenditures of AVCMHA and the Foundation be reported on a consolidated basis to MDCH. The audit report made adjustments to essentially reduce AVCMHA's reported costs related to the leased properties to the Foundation's underlying costs since allowable building costs during the fiscal year under audit were limited to the lower of cost or fair market rental value.

The audit report also stated that, based on attorney general opinions OAG 1979-1980 No. 5750 and OAG 1985-1986 No. 6411, AVCMHA did not have the authority to form the Foundation and that they should bring their relationship into legal compliance.

In March 1997, AVCMHA slightly modified their relationship with the Foundation. The AVCMHA's Executive Director resigned as an officer of the Foundation Board. Also, AVCMHA advised the Foundation to change their bylaws to allow AVCMHA to appoint Foundation Board members but not remove them. Effective October 1, 1997, AVCMHA suspended its right to appoint Foundation Board members according to the September 30, 2001 independent auditor's report. However, through fiscal year end September 30, 2001, AVCMHA had still appointed a voting majority of the Foundation Board members. In fact, AVCMHA did not formally eliminate their right to appoint Foundation Board members until January 27, 2003.

AVCMHA agreed to a settlement of the FY 1993-1994 audit findings in November 1997. MDCH and AVCMHA agreed that the Foundation would dissolve as soon as outstanding debt could be resolved. The agreement also specified that AVCMHA would use FY 1996-1997 General Funds for the $92,892 audit payback. Therefore, state funds were ultimately used to pay for the questioned costs.

In August 1998, MDCH conducted a follow-up review. The MDCH auditors noted that while actions had been taken to separate AVCMHA from the Foundation, the Foundation had not yet dissolved and AVCMHA continued to report their full lease payments to the Foundation on their Expenditure reports to MDCH. The MDCH auditors were not allowed access to the records of the Foundation, so they were not able to determine the difference between the lease payments and underlying cost with any specificity.

Through FY 2002-2003 the Foundation had not dissolved, and annual lease payments from AVCMHA to the Foundation of $257,317 continued from FY 1994-1995 to at least FY 2002-2003 despite the Foundation's full recovery of the leased properties' costs. The lease payments along with interest income were the only forms of revenue reported by the Foundation on its IRS 990 forms. The Foundation then made donations to AVCMHA in FY 1996-1997 through FY 1999-2000 of $110,000, $182,048, $144,839 and $28,805, respectively. Since the donation amounts exceed the amount of interest income earned by the Foundation it is determined that a portion, if not all of the donations, were MDCH funds from the lease payments. Those MDCH funds were then reported as local money by AVCMHA.

During our fieldwork, AVCMHA stated that although the Foundation had not dissolved, they had been functionally separate since November 1997. We requested that AVCMHA provide evidence of the organizational separation. AVCMHA responded that they had no authority to provide access to the Foundation's books and records and could not provide such documentation. AVCMHA also informed us that the Foundation declined to provide us with any information. A letter to the MDCH auditors from AVCMHA, dated May 7, 2003 states, in part, "As you have requested, we have conveyed to the Board of Directors of the Foundation your request that they open their books and records to you. As is their right, as a private entity, they have politely declined to do so." However, AVCMHA provided us with correspondence from the Foundation that indicated dissolution was still being considered.

Regardless of <u>any</u> organizational separation, the leases between AVCMHA and the Foundation are considered less-than-arms-length or sale and lease back arrangements, making the lease payments from AVCMHA to the Foundation allowable only up to the amount that would be allowed had title to the property vested in AVCMHA according to OMB Circular A-87.

Effective 10/1/98, the MSSSC required compliance with OMB Circular A-87, which includes allowable cost provisions for rental costs under less-than-arms-length leases, and sale and leaseback arrangements.

OMB Circular A-87, Attachment B, Section 38, Rental Costs, states, in part,

a. Subject to the limitations described in subsections b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased.

b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.

c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where:

(1) One party to the lease is able to control or substantially influence the actions of the other;

(2) Both parties are parts of the same governmental unit; or

(3) The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.

The five properties transferred from AVCMHA to the Foundation and then leased back to AVCMHA are clearly sale and leaseback arrangements making the lease costs allowable only up to the amount that would be allowed had AVCMHA continued to own the property.

All lease arrangements between AVCMHA and the Foundation are less-than-arms-length making the lease costs allowable only up to the amount that would be allowed had title to the property vested in AVCMHA. The sole fact that AVCMHA created the Foundation to acquire and lease facilities to AVCMHA makes leases between the parties less-than-arms-length regardless of any subsequent organizational changes. Additionally, AVCMHA can substantially influence the actions of the Foundation since AVCMHA is the sole voting member of the Foundation. Article III of the Foundation's Articles of Incorporation states, "2. The Corporation has only one class of membership, and AuSable Valley shall be the sole member, shall have full voting rights and powers and all other rights and powers, and no qualifications, limitations or restrictions, and shall pay to the Corporation an initial capital contribution of $1.00." Further showing the ability of AVCMHA to substantially influence the actions of the Foundation is the fact that until fiscal year 2001-2002 AVCMHA had appointed the voting majority of the Foundation Board members.

We also determined the lease payments exceeding actual costs of ownership are not real or actual expenditures and are therefore ineligible for state financial support. The Mental Health Code, Section 330.1242 (Section 242) states, in part,

"The following expenditures by a community mental health services program are not eligible for state financial support except as permitted under section 241 or by the department:…(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program except to expend from a reserve account established by the board, as provided in section 205."

AVCMHA did not sufficiently prove that lease payments to the Foundation were real and actual costs made pursuant to an arms-length lessor-lessee relationship. Therefore, the lease payments claimed in excess of underlying costs are ineligible for state financial support.

AVCMHA is only entitled to claim costs to MDCH for the properties up to the amount that would be allowed had AVCMHA owned the properties. OMB Circular A-87, Attachment B, Sections 15 and 19, allow for the charging of the <u>cost</u> of fixed assets to periods benefiting from asset use. <u>Underlying cost is clearly the limit</u>. Based on the limited information available, we calculated the Foundation's cost of the properties leased to AVCMHA at $1,489,725. As of fiscal year end 1997-1998, AVCMHA had paid the Foundation a total of $1,505,750 in lease payments and MDCH paid AVCMHA for these claimed costs. Therefore, as of fiscal year end 1997-1998, MDCH had completely fulfilled their contractual obligation to AVCMHA by reimbursing them, <u>in full</u>, through the financial reporting process for total actual costs plus finance charges for the seven buildings. AVCMHA is not entitled to reimbursement for costs exceeding actual ownership and should have stopped reporting these costs on their FSRs starting in FY 1998-1999.

Audit adjustments removing claimed lease costs that exceeded the costs of ownership are shown as follows:

FY 2000-2001	Schedules A and B	$257,317
FY 1999-2000	Schedules D and E	$257,317
FY 1998-1999	Schedules G and H	$257,317
FY 1997-1998	Schedules G and H	$ 16,025 *

* Lease payments exceeded cost by $16,025, but the financial impact was a $15,384 increase in GF Carryforward into FY 1998-1999

AVCMHA must also amend their FY 2001-2002 and FY 2002-2003 FSRs and Contract Reconciliation and Cash Summaries to reduce reported expenditures by $257,317 in each of the years. For FY 2003-2004, AVCMHA must also amend their FSR and Contract Reconciliation and Cash Summary to reduce reported expenditures for any lease payments to the Foundation that exceeded the actual costs of ownership.

Subsequent note: The AuSable Valley Community Mental Health Foundation dissolved on June 30, 2004 and its assets were transferred to AVCMHA. The notes to AVCMHA's FY 2003-2004 Financial Statements state, in part;

Effective October 1, 2003, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units", an amendment of GASB Statement No. 14. Accordingly, the financial activity of the Foundation, beginning October 1, 2003, is included in these financial statements. On June 30, 2004, the Foundation was dissolved and all of its assets were contributed to the Board at that time.

The dissolution and transfer of assets were addressed in the Management's Discussion and Analysis (MDA) to the FY 2003-2004 independent audit report. The MDA states, in part:

The Board made several important choices during the year, which have guided our application of the Board's resources during the year. These are as follows…

2. To accept the transfer of a substantial amount of real property and liquid assets from the AuSable Valley Community Mental Health Foundation, at the time it became necessary for the Foundation to dissolve itself. We have achieved success in that choice, and have seen a substantial increase in our financial position as a result of it.

As of the issue date of this report, the dissolution of the Foundation and the transfer of real property and liquid assets had not been audited by the MDCH Office of Audit, but will be addressed at a later date.

Recommendation

We recommend AVCMHA implement policies and procedures to report ownership costs for real property in compliance with the MSSSC, the Mental Health Code, and applicable regulations.

We also recommend AVCMHA amend their FY 2001-2002, FY 2002-2003, and FY 2003-2004 FSRs and Contract Reconciliation and Cash Summaries to reduce reported expenditures for lease payments to the Foundation that exceeded the actual costs of ownership.

Finding

2. Improper Reporting of Capital Asset Purchases

AVCMHA did not report purchases of vehicles, computers, and equipment on the FSRs in compliance with OMB Circular A-87 and the MSSSC.

AVCMHA reported expenditures of $222,084, $293,142, and $135,879 for capital assets on the FY 2000-2001, FY 1999-2000, and FY 1998-1999 FSRs, respectively. The reported expenditures were overstated as they were for the full purchase prices of the items rather than a depreciation amount or use allowance.

Prior to FY 1998-1999, AVCMHA's General Fund contract with MDCH allowed the full purchase prices of capital asset purchases to be expensed in the year of purchase. However, the MSSSC clearly states that the "contractual agreement represents a departure from the contractual agreement between the MDCH and CMHSP that expired on September 30, 1998." Also, the MSSSC requires compliance with OMB Circular A-87 and accrual accounting.

The MSSSC states that OMB Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87, Attachment B, Section 19, states, in part:

> *b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation…c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency…d. Items of equipment with an acquisition cost of less than $5000 are considered to be supplies and are allowable as direct costs…*

OMB Circular A-87, Attachment B, Section 15, states, in part, *Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.*

Additionally, the MSSSC, Section 8.9 and its Attachment 8.9.1, Section 1.3 – Financial Status Report, states, in part,

With the exception of P.A. 423 Grant Funds, all reported revenue and expenditure information is required to be provided on an accrual basis of accounting. This accrual basis is expected to recognize all revenues and expenditures through the reporting periods.

Approval by the awarding agency for capital expenditures to be charged as a direct cost was not granted. Therefore, the appropriate method of reporting expenditures for these capital assets would be depreciation or use allowance, not to fully expense the purchase price.

An adjustment for FY 2000-2001 removing expenditures for the full purchase prices of capital assets for $222,084 and substituting an appropriate depreciation allowance of $117,953 is shown on Schedules A and B.

An adjustment for FY 1999-2000 removing expenditures for the full purchase prices of capital assets for $293,142 and substituting an appropriate depreciation allowance of $54,500 is shown on Schedules D and E.

An adjustment for FY 1998-1999 removing expenditures for the full purchase prices of capital assets for $135,879 and substituting an appropriate depreciation allowance of $22,690 is shown on Schedules G and H.

Recommendation

We recommend AVCMHA adopt policies and procedures to ensure that expenses related to capital asset purchases are reported in compliance with OMB Circular A-87 and the MSSSC.

Finding

3. Medicaid Savings Used as Local Match

AVCMHA used Medicaid Savings as local match in FY 2000-2001 and in FY 1999-2000 in violation of the MSSSC.

AVCMHA requested and received approval from MDCH for both fiscal years to use $135,000 in Medicaid Savings as local match dollars. The MDCH approval was based on AVCMHA's claim that they had a "significant, unavoidable loss of local match revenues." When seeking approval, AVCMHA considered the Foundation contributions to be eligible sources of local match revenue and did not inform MDCH that the source of the Foundation's funds was from income that was claimed as a Medicaid matchable expense by AVMCHA. The Foundation contributions are not eligible sources of local match revenue according to the MSSSC since they are from an agency contracting with AVCMHA. Therefore, offsetting the "loss" of these dollars was not an allowable use of Medicaid Savings.

On August 9, 2000 AVCMHA filed a Medicaid Savings Reinvestment Plan for FY 1999-2000 with MDCH that indicated Medicaid Savings would be used as local match. MDCH initially denied the Plan because it appeared Medicaid funds would supplant local dollars.

A letter from MDCH Contract Management, dated August 14, 2000, states, in part,

The contract enables use of Medicaid savings for county match per section 8.3.9 of the contract. You identify the use of $240,377 savings for this purpose. This appears to exceed the amount of projected local match reflected in your most recent expenditure report. More importantly, using the savings to cover the entire match requirement would seem to reflect the supplanting of local match dollars with Medicaid savings. If your *local match requirement has in fact increased substantially over the prior year, or you can document a significant and unavoidable loss of local match revenues since the prior year, your proposed use of the savings would appear to be consistent with the contract intent. Otherwise, I recommend you amend the reinvestment plan to identify other uses consistent with section 8.8.2.3 of the contract.*

Please recognize that in discussions between HCFA leadership and the department, HCFA concerns about diverting Medicaid funds, including savings, to non-Medicaid purposes and to non-mental health purposes has been and remains a very significant issue. To the extent that Medicaid savings supplant other sources of local match dollars, those supplanted funds revert to a fund balance or county general fund and are available for any use. We do not support such actions.

On August 22, 2000, AVCMHA responded by letter. The response states, in part,

Our original plan identified $240,377 of savings for county match. You indicated that this was only appropriate if our local match requirement has increased substantially over the prior year, or if we had a significant, unavoidable loss of local match revenues since the prior year. In fact, we do have a significant, unavoidable loss of local match revenues. In 1999, we received a Foundation contribution to local dollars in the amount of $135,000. We do not expect such a contribution in fiscal year 2000. As a result, we are showing $135,000 as part of our Medicaid reinvestment plan, reflecting this significant loss in local dollars.

On September 12, 2000 MDCH approved the FY 1999-2000 Medicaid Reinvestment Plan. In April 2001 AVCMHA submitted a similar plan for FY 2000-2001 and received MDCH approval in May 2001.

As stated above, MDCH's approval was contingent upon documentation of a significant and unavoidable loss of local match revenues. While MDCH was led to believe AVCMHA had a significant and unavoidable loss of local match revenue, the revenue lost was not actually "local" revenue. The Foundation contributions to AVCMHA do not qualify as local match revenue under the provisions of the MSSSC. Specifically, the MSSSC, Section 8.3.8, Grants or Gift Exclusions, states,

Local funds exclude grants or gifts received by the County, the CMHSP, or agencies contracting with the CMHSP, from an individual or agency contracting to provide services to the CMHSP.

An exception may be made, where the CMHSP can demonstrate that such funds constitute a transfer of grants or gifts made for the purposes of financing mental health services, and are not made possible by CMHSP payments to the contract agency that are claimed as matchable expense for the purpose of state financing.

Since the Foundation contributions do not qualify as local match revenue, Medicaid savings can not be used to offset their "loss."

Audit adjustments reflecting $135,000 in additional Medicaid Savings expenditures are shown for FY 2000-2001 and FY 1999-2000 on Schedules A and B and on Schedules D and E, respectively. In addition, AVCMHA incorrectly omitted $137,937 of Medicaid Savings from the Revenue page of the FSR for FY 1999-2000. An audit adjustment to reflect total Medicaid Savings on the revenue page of the FSR is also shown on Schedules D and E.

Recommendation

We recommend AVCMHA implement policies and procedures to ensure Medicaid Savings is used in compliance with the MSSSC.

Finding

4. Errors in Reported Earned Contracts Revenues and Expenditures

AVCMHA did not properly report revenues and expenditures from earned contracts with Qualified Health Plans ("QHP") in FY 2000-2001, FY 1999-2000, and FY 1998-1999 in compliance with the MSSSC and FSR instructions.

Three QHPs contracted with AVCMHA to provide 20 outpatient visits for mental health services to QHP members who are enrolled Medicaid recipients. The QHPs received Medicaid funds from the State that specifically covered the 20 outpatient visits and then contracted with AVCMHA to provide these services. AVCMHA recorded the full expense of providing the 20 outpatient visits as matchable expenditures on their FSRs. AVCMHA was reimbursed once with Medicaid funds through the QHPs and again through reporting the expense of providing the 20 outpatient visits as a matchable expenditure on the FSRs. The 20 outpatient visits are not covered services of the MSSSC; they are covered services through the QHPs. Therefore, AVCMHA cannot report the expenditures associated with providing the 20 outpatient visits services as matchable expenditures on the FSRs. The revenue from the QHPs and the related expenditures of providing those services must be reported as earned contracts.

The MSSSC, Attachment 8.9.1, supports that only covered services of the MSSSC may be reported as matchable expenditures on the FSR as follows:

> *Section 2.4.3 Row Instructions, Row K: …This section applies to specialty managed care services within the waiver…and represents plan services provided to the Medicaid recipient population.*

The MSSSC, Attachment 8.9.1, supports that the revenue from the contracts with the QHPs and the related expenditures of providing these services must be reported as earned contracts as follows:

> *Section 2.3.2 Row Instructions, Row C: Earned Contracts (non MDCH)…Earned Contracts are defined as funds received by the CMHSP from the sale of services or goods including revenues earned in the context of the sale of these services or goods…Row C-2 should be used for all other earned contracts except those included in Section G.*

> *Section 2.4.3 Row Instructions, Row D-2 Other – Report any other earned contracts spending in this row.*

The Final Revised Request for the 1915(b) waiver, June 18, 1998, pages v. and vi., supports that the 20 outpatient visits services are not plan services provided within the waiver as follows:

> *The only Medicaid state plan defined behavioral health services <u>not</u> managed through the CMHSPs will be **primary** behavioral health care services (which includes both assessment, evaluation, limited treatment and specialty care referral services provided by a primary care provider, and the twenty (20) outpatient mental health visit benefit for acute ambulatory care which remains in the Medicaid Qualified Health Plan arrangements), and school based mental health services….If the recipient needs inpatient care, or extended care beyond primary behavioral health services and/or the 20 visit benefit of the health plan, they will be referred to the CMHSP in that service area for extended care under the **MPSBHS** plan.*
>
> *Under the **MPSBHS** plan, the department will prospectively pay CMHSPs, on a per-eligible-per-month basis, for provision of all needed behavioral health services (with the exception of primary behavioral health services, including the 20 mental health outpatient visits for recipients in capitated health plans, and school based mental health services) to Medicaid recipients within their service area.*

The Medical Services Administration Community Mental Health Services Programs Bulletin 00-01, dated December 1, 2000 supports that the 20 outpatient visits services are covered services of the QHPs as follows:

> *"Qualified Health Plans…contracting with the State of Michigan for comprehensive health care for Medicaid beneficiaries are responsible for providing up to 20 outpatient mental health visits per calendar year for beneficiaries enrolled with the health plan who need such services."*

AVCMHA Coordinating Agreements with the QHPs, Section 6.5, Medical Coordination, states that payment for the services is the responsibility of the QHP (not MDCH) as follows:

The QHP shall provide, or arrange and authorize for, a limited number of outpatient visits (20 visits). The QHP may contract with the CMHSP to provide this benefit. Payment for these services is the responsibility of the QHP.

The AVCMHA Contract with Comprehensive Behavioral Care, Inc., dated October 1, 1998, Section 3.8.6, states that AVCMHA is not entitled to any additional payment beyond that received by the QHP as follows:

Additional Payments. The compensation reflected in the Section 3.8 constitutes, and provider shall accept same, as payment in full for all Covered Services rendered and other obligations performed by Provider hereunder. Provider shall not be entitled to any additional payment from or reimbursement by any third party (including Medicare) for Covered Services rendered to members hereunder.

AVCMHA reported the revenue from the 20 outpatient visits as P.A. 423 funds. In other words, the revenue received from the QHP was recorded as local revenue, and the expenditures associated with providing the 20 outpatient visits services were recorded as matchable expenditures. AVCMHA relied on instructions communicated through an MDCH Question and Answer Memorandum, dated September 15, 1998. Even though this memorandum states that Medicaid funds may lose their identity as public funds and become the equivalent of private insurance dollars, nothing from the federal government supports this treatment. Medicaid funds cannot lose their identity as public funds and become local funds; this would be an inappropriate subsidy for services for the uninsured and a violation of Section 1903 of the Social Security Act which requires the use of Medicaid funds for Medicaid recipients.

Audit adjustments to both the revenue and expenditure pages of the FSRs to reflect earned contract revenue from the QHPs are shown as follows:

FY 2000-2001	Schedules A and B	$ 70,645
FY 1999-2000	Schedules D and E	$ 40,112
FY 1998-1999	Schedules G and H	$ 2,291

Recommendation

We recommend AVCMHA implement policies and procedures to ensure that all costs related to earned contracts are properly reported in compliance with the MSSSC and FSR instructions.

Finding

5. Board Administration Cost Allocation Error

AVCMHA did not properly allocate Board Administration expenses to outpatient services in FY 2000-2001 in compliance with OMB Circular A-87 and the MSSSC.

AVCMHA's cost allocation plan included an allocation of Board Administration expenses to outpatient services. However, when the Board Administration expenses were allocated, the outpatient services were not assigned their share. The error resulted in Medicaid costs being overstated by $42,255 and General Funds being understated by $42,255.

OMB Circular A-87, Attachment A, Section C.3 (a), states, in part,

> *A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

OMB Circular A-87, Attachment A, Section D.1, states,

> *Total Cost. The total cost of federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.*

An audit adjustment reflecting $42,255 to correct the allocation of Board Administration costs is shown on Schedules A and B.

Recommendation

We recommend AVCMHA implement policies and procedures to ensure that all Board Administration costs are properly allocated in compliance with OMB Circular A-87 and the MSSSC.

Finding

6. Undocumented Payroll Expense Allocation

AVCMHA did not document their payroll expense allocation in compliance with the MSSSC and OMB Circular A-87.

AVCMHA did not adequately document payroll cost allocations to program cost centers. We reviewed AVCMHA's cost allocation methodology for ten employees who worked in more than one cost center. We determined AVCMHA's allocations were based on information provided to the Finance Department from supervisory staff. However, AVCMHA provided no evidence that allocations were supported by personnel activity reports or periodic certifications as required by OMB Circular A-87.

AVCMHA is required to implement the provisions of OMB Circular A-87 related to the allocation of personnel costs. Attachment B, Section 11. – Compensation for Personnel Services, Section h. – Support of salaries and wages, states, in part,

These standards regarding time distribution are in addition to the standards for payroll documentation...

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling

system (see subsection (6)) or other substitute has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) more than one Federal award,

(b) a Federal award and a non-Federal award,

(c) an indirect cost activity and a direct cost activity,

(d) two or more indirect activities which are allocated using different allocation bases, or

(e) an unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

We made no financial adjustment, as our review did not identify any material impropriety in the allocation of payroll costs. However, AVCMHA should adhere to the above requirements to ensure that costs are properly charged to the applicable programs. Failure to properly allocate costs could affect the agency's ability to comply with the MSSSC.

Recommendation

We recommend AVCMHA implement policies and procedures for personnel cost allocation documentation that are in compliance with the MSSSC and OMB Circular A-87.

Finding

7. FIA Home Help Services Expenditure Reporting Error

AVCMHA improperly supplemented the cost of the Michigan Family Independence Agency ("FIA") Home Help personal care services to CMHSP consumers in violation of the MSSSC.

In FY 2000-2001, FY 1999-2000, and FY 1998-1999, FIA contracted with AVCMHA to provide Home Help personal care services to approximately 26 consumers also served by AVCMHA under the 1915(c) Home and Community-Based Habilitation Supports Waiver ("HSW"). FIA also contracted with AVCMHA to provide Home Help services to 38 consumers receiving AVCMHA Community Living Supports "alternative services" under the MSSSC 1915(b) Managed Care waiver. These consumers were eligible for FIA Home Help services through the Medicaid State Plan because they were Medicaid eligible, they lived in unlicensed/non-foster care living situations, and they had documented need. FIA conducted functional assessments for these consumers and then contracted with AVCMHA to provide specific personal care services for a specified number of hours.

According to an MDCH Policy Hearing Authority Decision issued in 2002, HSW services (and "alternative services" under the 1915(b) waiver) cannot duplicate Medicaid State Plan services. Accordingly, any cost associated with providing the Home Help services (Medicaid State Plan services) cannot be reported as a matchable expenditure of AVCMHA under their mental health services program contract with MDCH. As such, AVCMHA should have reported the <u>full cost</u> to provide Home Help services as Earned Contracts on their FSRs. Even though AVCMHA properly reduced matchable expenditures by reporting FIA revenues as reimbursements, they improperly included the <u>unreimbursed</u> portion as MDCH matchable expenditures on the FSRs.

The MSSSC, Attachment 4.5.4.1, Section D., page 4, states, in part,

> *Under the managed mental health services programs, capitated payments and state funds must be used to provide covered or mandated mental health services to eligible*

consumers or priority populations, and cannot be used to supplant other sources of payment or to pay for services that are the responsibility of another agency.

In 2002, the former MDCH Director issued a Policy Hearing Authority Decision (Docket No: 01-0358 and 01-2388) that addressed, along with other issues, Home Help personal care services. The Policy Hearing Authority Decision, Issues 3 & 4, states, in part,

The federal regulations define home and community based services as services, not otherwise furnished under the State's Medicaid Plan. (emphasis added)

The State of Michigan has chosen to provide Personal Care Services to eligible recipients as part of its State Plan. These services are also called Home Help services. Personal Care Services include: assistance with activities of daily living including eating, toileting, bathing, grooming, dressing, and mobility (ambulation and transferring) and instrumental activities of daily living including personal laundry, light housekeeping, shopping and errands, meal planning and preparation and self administration of medication. Michigan has further chosen to provide transportation as a State Plan service available to any eligible Medicaid recipient for medically related purposes as defined by policy.

Department of Community Health policy, Community Mental Health Services Programs (CMHSP) manual, Chapter III, page 63, lists as 1915(c) waiver services: meal preparation, laundry, routine household care and maintenance, assistance with activities of daily living such as bath, eating, dressing, personal hygiene, shopping, and transportation. Each of these services is also provided through the State Plan. The Family Independence Agency (FIA) has also been designated as the agency to provide State Plan services to eligible recipients for transportation to obtain medical evidence or to receive a Medicaid covered service from any MA-enrolled provider.

The Department may not duplicate any services provided in the State Plan with services provided under a Home and Community Based Waiver.

As part of the same decision, the Director issued the following:

> *IT IS FURTHER ORDERED that the Department amend Department policy, CMHSP Manual, Chapter III, and its Home and Community Based waiver to exclude State Plan personal care services.*

On November 22, 2002 MDCH issued a letter to PIHP and CMHSP Executive Directors that further explained the Policy Hearing Authority Decision. The letter summarized the considerations of the Decision and reiterated the requirements binding on the Department and contract agencies. MDCH's letter also addressed "alternative services" of the 1915(b) Managed Care Waiver Program and FIA's responsibility to provide Home Help services to eligible recipients. The letter, page 5, states, in part,

> *The Policy Hearing Authority Decision called attention to the federal requirement of* ***"nonduplication";*** *that is, the state may not provide the exact same service under a 1915(c) waiver (or, presumably, as an "alternative" under a 1915(b) waiver program) that it offers under the regular state Medicaid plan. The logic behind "nonduplication" (especially in the context of the 1915(c) waiver) is straightforward: the beneficiary is already eligible for the service under the state plan. While a service under the 1915(c) waiver (or an alternative under the 1915(a)(1)(A) provisions) cannot duplicate a state plan coverage, it can* **"complement"** *the state plan coverage by offering additional (differentiated) or extended services that go beyond the basic assistance provided through the state plan.*

By reporting only the FIA revenue as the full cost of the earned contract, AVCMHA understated non-MDCH Earned Contracts. AVCMHA consequently overstated MDCH matchable expenditures by the difference between what they reported as reimbursements ($6.00 per hour) and the full cost to provide those services ($10.39 - $11.32 per hour).

Matchable expenditures were overstated as follows:

FY 2000-2001	Schedules A and B	$138,969
FY 1999-2000	Schedules D and E	$102,406

FY 1998-1999	Schedules G and H	$ 60,697

We made no financial adjustment because the above-mentioned Policy Hearing Authority Decision was issued after the end of our audit period.

Recommendation

We recommend AVCMHA implement policies and procedures to report FIA Home Help expenditures as Earned Contracts in compliance with the MSSSC and the related MDCH Policy Hearing Authority Decision.

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 2: To assess AVCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practices guidelines.

Conclusion: AVCMHA was generally not effective and efficient in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practices guidelines. We found exceptions related to the MSSSC financial reporting requirements (findings 1-7), contract management (finding 8), the procurement policy (finding 9), and consumer records (finding 10).

Finding

8. Deficiencies in Contract Management

AVCMHA did not properly manage their subcontracts in compliance with the MSSSC and sound business practices.

AVCMHA did not maintain adequate control over their contracting process. AVCMHA could not provide an accurate list of contracts for the audit year. For FY 2000-2001, we reviewed 26 contracts representing 85% of total contracted services. We found 18 contracts had not been executed on or before the start of the fiscal year, two contracts had lapsed while AVCMHA continued to make payments, one contractor was paid mileage not included as a contract provision, and five contracts had no provision to address "Relationship with other providers" (as required by Section 4.7.6.2 of the MSSSC).

The MSSSC, Section 4.7.6.2, states:

> *The CMHSP shall be held solely and fully responsible to execute all provisions of this contract regardless if said provisions are directly pursued by the CMHSP, pursued by the CMHSP through a subcontract vendor, or any combination thereof.*

Subcontracts that are not executed timely, incomplete, or not enforced present financial and program risks for the CMHSP. AVCMHA must ensure subcontracts are complete and executed timely so that subcontractors who receive federal and state funds have a legal obligation to provide goods or services, and provide them in compliance with the provisions of the MSSSC.

Recommendation

We recommend AVCMHA implement a master control of contracts and implement policies and procedures to ensure uniformity of contracts, timely execution, and enforcement of terms.

Finding

9. Procurement Policy Deficiencies

AVCMHA's procurement policy and procedures did not contain the provisions of the Procurement Technical Requirement as required by the MSSSC.

AVCMHA had purchasing policies and procedures that addressed acquisition of goods and capital outlay but did not have policies and procedures to address procurement of services.

The MSSSC, Attachment 4.7.6.1.1, Procurement Technical Requirement, Introduction, page 1, states, *The assumption of managed care responsibilities for specialized Medicaid mental health, developmental disabilities and/or substance abuse services has implications for the procurement and selective contracting activities of the Community Mental Health Service Programs (CMHSPs) and Regional Substance Abuse Coordinating Agencies (RSACAs). Soliciting providers and programs for the service delivery system, acquiring claim processing capabilities, enhancements to management information system capacity, or obtaining general managements services to assist in the administration of the managed care program, must be done with due deliberation and sensitivity to procurement and contracting issues.*

The MSSSC, Attachment 4.7.6.1.1, Procurement Technical Requirement, Procurement and Contracting for Service Providers, page 1, states, in part,

When soliciting providers, it should be the objective of each CMHSP or RSACA to acquire needed services and supports at fair and economical prices….Procurement processes should be used to solicit such services. Depending on the circumstances (e.g. local area market conditions, kind or quantity of services needed, etc.) various methods for selecting providers may be used including: 1. Procurement for Selective Contracting…2.Procurement to Obtain Best Prices Without Selective Contracting…3. Non-Competitive Solicitation and/or Selection of Providers.

Recommendation

We recommend AVCMHA establish and implement procurement policies and procedures to ensure compliance with the MSSSC.

Finding

10. Inadequate Services Documentation

AVCMHA did not properly document services provided to consumers as required by the MSSSC, OMB Circular A-87, and the Mental Health Code; and AVCMHA's Continuous Quality Improvement Work Plan did not identify the non-compliance issues as an Area of Focus even though AVCMHA's own review identified similar deficiencies.

For FY 2000-2001, we selected and reviewed service activity reports for 38 consumers. We reviewed consumer clinical records to verify that services recorded in the financial records were provided in accordance with Person-Centered Planning ("PCP") and that services were properly documented in the clinical record. We also verified that services provided and documented in the clinical record were properly recorded in the financial records and that services were properly classified as Medicaid and General Fund funded. We determined that AVCMHA did not properly document or record information as follows:

23 consumers – 149 services documented in the financial record - not in the clinical record
17 consumers – 97 services documented in the clinical record - not in the financial record
14 consumers – misclassifications between Medicaid and General Fund funding
7 consumers – no evidence of PCP or unclear as to goals
5 consumers – lack of Ability-to-Pay (or incorrect) documentation
4 consumers – 270 services double recorded in the financial records
3 consumers – miscoded services
2 consumers – untimely annual reviews

We also reviewed AVCMHA's Continuous Quality Improvement ("CQI") program to evaluate continuous improvement mechanism(s). AVCMH's CQI program incorporates five specific objectives. The fourth objective of the program states,

> *Utilization Review*
> *Five to ten percent of active and non-active charts for all services will be reviewed annually. The review process will include the following:*
> *a.* *chart completeness and legibility*
> *b.* *medical appropriateness of the care*
> *c.* *level of care appropriateness*
> *d.* *services provided effectively and efficiently*
> *e.* *services performed in the appropriate setting*
> f. *involves Person-Centered-Planning*
> g. *ensure recipient rights and confidentiality*

AVCMHA implemented this objective by conducting monthly reviews. Results of their monthly internal reviews (January – August 2001) indicated similar deficiencies to those we found. However, AVCMHA's CQI Work Plan for FY 2001-2002 did not specifically identify the non-compliance issues as an Area of Focus.

OMB Circular A-87, Attachment A, Section C.1. – Basic Guidelines – Factors affecting allowability of costs – states, in part,

To be allowable under Federal awards, costs must meet the following general criteria:

(j) Be adequately documented.

The Mental Health Code, Section 746(1), states,

A complete record shall be kept current for each recipient of mental health services. The record shall at least include information pertinent to the services provided to the recipient, pertinent to the legal status of the recipient, required by this chapter or other provision of law, and required by rules or policies.

42 CFR, Section 431.107, Required Provider Agreement, states, in part,

b. Agreements. A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organizations agrees to: (1) keep any records necessary to disclose the extent of services the provider furnishes to recipients.

AVCMHA's inadequate documentation violated contractual and regulatory requirements and resulted in incorrect reporting of Medicaid and General Fund costs on the FSR. AVCMHA allocates costs to Medicaid and the General Fund based on services as reported on service activity reports. We found, in some cases, services were omitted from the activity reports and, in other cases, double-booked. These errors caused a miscalculation of service units by funding source. The misstatement generated incorrect statistics used to allocate costs on the FSR. We made no financial adjustment because the problem appeared to be systemic and it was not feasible to review all services for all consumers.

Recommendation

We recommend AVCMHA implement CQI procedures to improve services documentation as required by the MSSSC and other applicable laws and regulations. We also recommend that AVCMHA implement procedures to ensure the integrity of the statistics used to allocate costs in compliance with the MSSSC.

MDCH's SHARE OF COSTS AND BALANCE DUE MDCH

Objective 3: To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and to identify any balance due to/from AVCMHA.

Conclusion: MDCH's obligations for FYE 9/30/2001, FYE 9/30/2000, and FYE 9/30/1999 (excluding the MIChild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments are $8,320,998, $8,329,550, and $8,177,565, respectively. AVCMHA owes MDCH a balance of $1,562,910 after considering advances and prior settlements as summarized below:

FYE 9/30/2001 MDCH Advances in Excess of MDCH Obligation (Schedule C)	$704,224
FYE 9/30/2001 Prior Settlement (Schedule C)	(46,408)
FYE 9/30/2000 MDCH Advances in Excess of MDCH Obligation (Schedule F)	642,965
FYE 9/30/2000 Prior Settlement (Schedule F)	(29,046)
FYE 9/30/1999 MDCH Advances in Excess of MDCH Obligation (Schedule I)	388,385
FYE 9/30/1999 Prior Settlement (Schedule I)	(97,210)
Total Balance Due to MDCH	$1,562,910

AVCMHA must also amend their FY 2001-2002 and FY 2002-2003 FSRs and Contract Reconciliation and Cash Summaries to reduce reported expenditures by $257,317 in each of the years. For FY 2003-2004, AVCMHA must also amend their FSR and Contract Reconciliation and Cash Summary to reduce reported expenditures for any lease payments to the Foundation that exceeded the actual costs of ownership.

Appendix

Schedule A
Financial Status Report
October 1, 2000 through September 30, 2001

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$508,107	-	$508,107
B.	Substance Abuse Total	$667,192	-	$667,192
C.	Earned Contracts (non DCH) Total	$280,203	70,645	$350,848
1	CMH to CMH	-	-	-
2	Other	280,203	70,645	350,848
D.	MI Child - Mental Health	$8,208	-	$8,208
E.	Local Funding Total	$338,164	(70,645)	$267,519
1	Special Fund Account (226(a))	145,901	(70,645)	75,256
2	Title XX Replacement	8,200	-	8,200
3	All Other	184,063	-	184,063
F.	Reserve Balances - Planned for use	$316,247	70,797	$387,044
1	Carryforward -Section 226(2)(b)(c)	316,247	70,797	387,044
2	Internal Service Fund	-	-	-
G.	DCH Earned Contracts Total	$85,679	-	$85,679
1	PASARR	30,132	-	30,132
2	Block Grant for CMH Services	50,000	-	50,000
3	Prevention	5,547	-	5,547
H.	Gross Medicaid Total	$6,748,024	-	$6,748,024
1	Medicaid - Specialty Managed Care	6,748,024	-	6,748,024
2	Children's Waiver	-	-	-
I.	Reimbursements Total	$263,260	-	$263,260
1	1st and 3rd Party	-	-	-
2	SSI	263,260	-	263,260
J.	State General Funds Total	$2,243,250	-	$2,243,250
1	Formula Funding	2,023,189	-	2,023,189
2	Categorical Funding	34,400	-	34,400
3	State Services Base	185,661	-	185,661
4	DCH Risk Authorization	-		-
K.	Grand Total Revenues	$11,458,334	70,797	$11,529,131
L.	Estimated MDCH Obligation (G+H+J)	$9,076,953	-	$9,076,953

Schedule A
Financial Status Report
October 1, 2000 through September 30, 2001

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$11,064,749	($361,448)	$10,703,301
B.	Expenditures Not Otherwise Reported	$508,108	-	$508,108
C.	Substance Abuse Total	$773,489	($7,657)	$765,832
D.	Earned Contracts (Non MDCH) Total	$268,413	$70,645	$339,058
	1 CMH to CMH	-	-	-
	2 Other Earned Contracts	268,413	70,645	339,058
E.	MI Child - Mental Health	$8,208	-	$8,208
F.	Local Total	$17,305	-	$17,305
	1 Local Cost for State Provided Services	17,305	-	17,305
G.	Expenditures From Reserve Balances	$181,247	205,797	$387,044
	1 Carryforward - Sec 226(2)(b)(c)	181,247	205,797	387,044
H.	MDCH Earned Contracts Total	$85,679	-	$85,679
	1 PASARR	30,132	-	30,132
	2 Block Grant for CMH Services	50,000	-	50,000
	3 Prevention	5,547	-	5,547
I.	Matchable Services (A-(B through H))	$9,222,300	($630,233)	$8,592,067
J.	Payments to MDCH for State Services	$172,635	-	$172,635

Schedule A
Financial Status Report
October 1, 2000 through September 30, 2001

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K.	Specialty Managed Care Service Total	$7,583,111	($580,309)	$7,002,802
1	100% MDCH Matchable Services	4,003,131	(302,695)	3,700,436
2	All SSI and Other Reimbursements	263,260	-	263,260
3	Net MDCH Share for 100 % Services (K1-K2)	3,739,871	(302,695)	3,437,176
4	90/10 Matchable Services	3,579,980	(277,614)	3,302,366
5	Medicaid Federal Share	2,011,233	(155,964)	1,855,269
6	Other Reimbursements	-	-	-
7	10% Local Match Funds	156,875	(12,165)	144,710
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	1,411,872	(109,485)	1,302,387
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	7,162,976	(568,144)	6,594,832
L.	GF Categorical and Formula Services Total	$1,466,554	($49,924)	$1,416,630
1	100% MDCH Matchable Services	152,642	(3,340)	149,302
2	All SSI and Other Reimbursements	-	-	-
3	Net GF and Formula for 100% Services (L1-L2)	152,642	(3,340)	149,302
4	90/10 Matchable Services	1,313,912	(46,584)	1,267,328
5	Reimbursements	-	-	-
6	10% Local Match Funds	131,391	(4,658)	126,733
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	1,182,521	(41,926)	1,140,595
8	Total MDCH GF and Formula (L3+L7)	1,335,163	(45,266)	1,289,897
M.	Children's Waiver - Total	-	-	-
N.	Unobligated Spending Authority Total	-	-	-
O.	Total Local Match Funds (K7+L6)	$288,266	($16,823)	$271,443
P.	Total MDCH Share of Expenditures (J+K9+L8+M)	$8,670,774	($613,410)	$8,057,364

Schedule B

Explanation of Audit Adjustments

October 1, 2000 through September 30, 2001

Revenues

Earned Contracts (non-MDCH)	**$70,645**
To reclassify QHP revenue as Earned Contracts. (finding 4)	
Local Funding Total	**(70,645)**
To reclassify QHP revenue as Earned Contracts. (finding 4)	
Reserve Balances – Planned for Use	**70,797**
To adjust Medicaid Savings for FY 1999-2000 after audit adjustments.	

Expenditures

Gross Total Expenditures	**(361,448)**
($257,317) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)	
($222,084) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)	
$117,953 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)	
Substance Abuse Other	**(7,657)**
To remove expenditures related to payments to AVCMHA Foundation. (finding 1)	

Schedule B – FY 2000-2001 (continued)

Earned Contracts (non-MDCH)	**70,645**
$70,645 to reclassify QHP revenue as Earned Contracts. (finding 4)	
Expenditures from Reserve Balances	**205,797**
$70,797 to adjust Medicaid Savings for FY 1999-2000 after audit adjustments.	
$135,000 to adjust Medicaid Savings not allowed as local match (finding 3)	
Matchable Services	**(630,233)**
($70,797) to adjust Medicaid Savings for FY 1999-2000 after audit adjustments.	
($249,660) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)	
($222,084) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)	
$117,953 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)	
($135,000) to adjust Medicaid Savings not allowed as local match (finding 3)	
($70,645) to reclassify QHP revenue as Earned Contracts. (finding 4)	

Schedule B – FY 2000-2001 (continued)

Specialty Managed Care Service Total **(580,309)**

($70,797) to adjust Medicaid Savings for FY 1999-2000 after audit adjustments.

($218,734) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($203,053) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$89,530 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

($135,000) to adjust Medicaid Savings not allowed as local match (finding 3)

($42,255) to include outpatient services in Board Administration cost allocation. (finding 5)

GF Categorical and Formula Services Total **(49,924)**

($30,926) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($19,031) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$28,423 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

Schedule B – FY 2000-2001 (continued)

($70,645) to reclassify QHP revenue as Earned Contracts. (finding 4)

$42,255 to include outpatient services in Board Administration cost allocation. (finding 5)

Schedule C
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/01

	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Savings or Carryforward	Total MDCH Share
I. Maintenance of Effort (MOE)					
A. Maintenance of Effort - Expenditures					
1 OBRA Active Treatment	$89,905	-	$72,950	$4,495	$77,445
2 OBRA Residential	867,658	867,658	-	-	867,658
3 Residential Direct Care Wage Increase #2 - 100% MOE	124,896	124,896	-	-	124,896
4 Total	$1,082,459	$992,554	$72,950	$4,495	$1,069,999
5 Maintenance of Effort - Lapse					$7,906

B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 OBRA Active Treatment	$89,905	0.00%	100.00%	-	$89,905
2 OBRA Residential	867,658	100.00%	0.00%	867,658	-
3 Direct Care Wage Increase #2 - 100% MOE	124,896	100.00%	0.00%	124,896	-
4 Total	$1,082,459			$992,554	$89,905

II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense
A. Total - Specialized Managed Care	$6,748,024	$6,594,832
B. Maintenance of Effort - Summary	992,554	992,554
C. Net Specialized Managed Care (A-B)	$5,755,470	$5,602,278

III. State/General Fund Formula Funding	Authorization	MDCH Expense
A. GF/Formula - State and Community Managed Programs		
1 State Managed Services	$185,661	$172,635
2 MDCH Risk Authorization - MDCH Approved for Use	-	-
3 Community Managed Services	2,057,589	1,289,897
4 Total State and Community Programs - GF/Formula Funding	$2,243,250	$1,462,532
B. Maintenance of Effort - Summary	89,905	72,950
C. Categorical, Special And Designated Funds		
1 Respite Grant (Tobacco Tax)	34,400	34,400
2 Other	-	-
3 Total Categorical, Special and Designated Funds	$34,400	$34,400
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$2,118,945	$1,355,182

Schedule C
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/01

		Specialized Managed Care	Formula Funds
IV.	Shared Risk Arrangement		
A.	Operating Budget - Exclude MOE and Categorical Funding	$5,755,470	$2,118,945
B.	MDCH Share - Exclude MOE and Categorical Funding	5,602,278	1,355,182
C.	Surplus (Deficit)	$153,192	$763,763
D.	Risk Band		
1	Shared Risk - CMH Portion		
	Risk Band #1 Liability - CMH Portion	$287,774	$105,947

		MDCH Share	Savings or Carryforward	Total	Grand Total
V.	Cash Settlement				
A.	MDCH Obligation				
1	Specialty Managed Care (Net of MOE)	$5,602,278	$153,192	$5,755,470	
2	GF/Formula Funding (Net of Categorical and MOE)	1,355,182	105,947	1,461,129	
3	MOE Specialty Managed Care MDCH Obligation	992,554	-	992,554	
4	MOE GF/Formula Funding MDCH Obligation	72,950	4,495	77,445	
5	Categorical - MDCH Obligation	34,400	-	34,400	
6	Total - MDCH Obligation				8,320,998
B.	Advances - Prepayments				
1	Specialized Managed Care			6,748,024	
2	GF/Formula Funding - (Include MDCH Risk Authorization)			1,896,172	
3	Purchase of Services			185,661	
4	Categorical Funding			34,400	
5	Total Prepayments				8,864,257
C.	Balance Due MDCH				543,259
D.	Balance Due to MDCH for Unpaid State Service Costs				
	State Facility Costs			172,635	
	Actual Payments to MDCH			11,670	
	Balance Due MDCH				160,965
E.	Net Balance Due MDCH				$704,224
	Prior Settlement				(46,408)
	Balance Due to MDCH				$657,816

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$448,113	-	$448,113
B.	Substance Abuse Total	$773,428	-	$773,428
C.	Earned Contracts (non DCH) Total	$278,526	40,112	$318,638
1	CMH to CMH	-	-	-
2	Other	278,526	40,112	318,638
D.	MI Child - Mental Health	$6,961	-	$6,961
E.	Local Funding Total	$367,367	(40,112)	$327,255
1	Special Fund Account (226(a))	182,318	(40,112)	142,206
2	Title XX Replacement	8,200	-	8,200
3	All Other	176,849	-	176,849
F.	Reserve Balances - Planned for use	-	361,340	361,340
1	Carryforward -Section 226(2)(b)(c)	-	361,340	361,340
2	Internal Service Fund	-	-	-
G.	DCH Earned Contracts Total	$84,275	-	$84,275
1	PASARR	31,427	-	31,427
2	Block Grant for CMH Services	50,000	-	50,000
3	DD Council Grant	2,848	-	2,848
H.	Gross Medicaid Total	$6,729,501	-	$6,729,501
1	Medicaid - Specialty Managed Care	6,729,501	-	6,729,501
2	Children's Waiver	-	-	-
I.	Reimbursements Total	$307,630	-	$307,630
1	1st and 3rd Party	-	-	-
2	SSI	307,630	-	307,630
J.	State General Funds Total	$2,225,887	-	$2,225,887
1	Formula Funding	1,842,182	-	1,842,182
2	Categorical Funding	34,400	-	34,400
3	State Services Base	347,275	-	347,275
4	DCH Risk Authorization	2,030		2,030
K.	Grand Total Revenues	$11,221,687	361,340	$11,583,027
L.	Estimated MDCH Obligation (G+H+J)	$9,039,663	-	$9,039,663

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$10,952,389	($495,959)	$10,456,430
B.	Expenditures Not Otherwise Reported	$404,774	-	$404,774
C.	Substance Abuse Total	$700,688	($5,833)	$694,855
D.	Earned Contracts (Non MDCH) Total	$278,526	$40,112	$318,638
1	CMH to CMH	-	-	-
2	Other Earned Contracts	278,526	40,112	318,638
E.	MI Child - Mental Health	$6,961	-	$6,961
F.	Local Total	$47,447	-	$47,447
1	Local Cost for State Provided Services	47,447	-	47,447
G.	Expenditures From Reserve Balances	$137,937	$223,403	$361,340
1	Medicaid Savings	137,937	141,510	279,447
2	GF Carryforward	-	81,893	81,893
H.	MDCH Earned Contracts Total	$428,335	(344,060)	$84,275
1	PASARR	31,427	-	31,427
2	Block Grant for CMH Services	50,000	-	50,000
3	DD Council Grant	2,848	-	2,848
4	Other: Tobacco Tax	34,400	(34,400)	-
5	Other: SSI	307,630	(307,630)	-
6	Other: DCH Risk Authorization	2,030	(2,030)	-
I.	Matchable Services (A-(B through H))	$8,947,721	($409,581)	$8,538,140
J.	Payments to MDCH for State Services	$166,268	-	$166,268

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K.	Specialty Managed Care Service Total	$6,536,478	($239,512)	$6,296,966
1	100% MDCH Matchable Services	3,484,870	118,751	3,603,621
2	All SSI and Other Reimbursements	-	307,630	307,630
3	Net MDCH Share for 100 % Services (K1-K2)	3,484,870	(188,879)	3,295,991
4	90/10 Matchable Services	3,051,608	(358,263)	2,693,345
5	Medicaid Federal Share	1,681,741	(197,439)	1,484,302
6	Other Reimbursements	-	-	-
7	10% Local Match Funds	136,987	(16,082)	120,904
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	1,232,880	(144,742)	1,088,139
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	6,399,491	(531,060)	5,868,432
L.	GF Categorical and Formula Services Total	$2,244,975	(170,069)	$2,074,906
1	100% MDCH Matchable Services	409,857	(5,948)	403,909
2	All SSI and Other Reimbursements	-	-	-
3	Net GF and Formula for 100% Services (L1-L2)	409,857	(5,948)	403,909
4	90/10 Matchable Services	1,835,118	(164,121)	1,670,997
5	Reimbursements	-	-	-
6	10% Local Match Funds	183,512	(16,412)	167,100
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	1,651,606	(147,709)	1,503,897
8	Total MDCH GF and Formula (L3+L7)	2,061,463	(153,657)	1,907,806
M.	Children's Waiver - Total	-	-	-
N.	Unobligated Spending Authority Total	-	-	-
O.	Total Local Match Funds (K7+L6)	$320,499	($32,494)	$288,004
P.	Total MDCH Share of Expenditures (J+K9+L8+M)	$8,627,222	($684,717)	$7,942,506

Schedule E

Explanation of Audit Adjustments

October 1, 1999 through September 30, 2000

Revenues

Earned Contracts (non-MDCH)	**$40,112**
To reclassify QHP revenue as Earned Contracts. (finding 4)	
Local Funding Total	**(40,112)**
To reclassify QHP revenue as Earned Contracts. (finding 4)	
Reserve Balances – Planned for Use	**361,340**
$6,510 to adjust Medicaid Savings for FY 1998-1999 after audit adjustments.	
$81,893 to adjust General Fund Carryforward for FY 1998-1999 after audit adjustments.	
$135,000 to adjust for Medicaid Savings not allowed as local match. (finding 3)	
$137,937 to correct Medicaid Savings Planned for Use (finding 3)	

Expenditures

Gross Total Expenditures	**(495,959)**
($257,317) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)	
($293,142) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)	

Schedule E – FY 1999-2000 (continued)

$54,500 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

Substance Abuse Other	**(5,833)**

To remove expenditures related to payments to AVCMHA Foundation. (finding 1)

Earned Contracts (non-MDCH)	**40,112**

To reclassify QHP revenue as Earned Contracts. (finding 4)

Expenditures from Reserve Balances	**223,403**

$6,510 to adjust Medicaid Savings for FY 1998-1999 after audit adjustments.

$81,893 to adjust General Fund Carryforward for FY 1998-1999 after audit adjustments.

$135,000 to adjust Medicaid Savings not allowed as local match. (finding 3)

MDCH Earned Contracts Total	**(344,060)**

($307,630) to remove misreported SSI.

($36,430) to include misreported Tobacco Tax and DCH Risk Authorization.

Matchable Services	**(409,581)**

($6,510) to adjust Medicaid Savings for FY 1998-1999 after audit adjustments.

($81,893) to adjust General Fund Carryforward for FY 1998-1999 after audit adjustments.

$307,630 to include misreported SSI.

$36,430 to include misreported Tobacco Tax and DCH Risk Authorization.

($251,484) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($293,142) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$54,500 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

($135,000) to adjust Medicaid Savings not allowed as local match. (finding 3)

($40,112) to reclassify QHP revenue as Earned Contracts. (finding 4)

Specialty Managed Care Service Total **(239,512)**

($6,510) to adjust Medicaid Savings for FY 1998-1999 after audit adjustments.

$307,630 to include misreported SSI.

($206,281) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($239,163) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$39,812 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

($135,000) to adjust Medicaid Savings not allowed as local match. (finding 3)

GF Categorical and Formula Services Total	**(170,069)**

($81,893) to adjust General Fund Carryforward for FY 1998-1999 after audit adjustments.

$36,430 to include misreported Tobacco Tax and DCH Risk Authorization.

($45,203) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($53,979) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$14,688 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

($40,112) to reclassify QHP revenue as Earned Contracts. (finding 4)

Schedule F
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/00

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Savings or Carryforward	Total MDCH Share
A. Maintenance of Effort - Expenditures					
1 OBRA Active Treatment	$89,905	-	$73,491	$4,495	$77,986
2 OBRA Residential	867,658	852,145	15,513	-	867,658
3 Residential Direct Care Wage Increase #2 - 100% MOE	187,540	187,540	-	-	187,540
4 Residential Direct Care Wage Increase #2 - 100% MOE	124,896	124,896	-	-	124,896
5 Total	$1,269,999	$1,164,581	$89,004	$4,495	$1,258,080
6 Maintenance of Effort - Lapse					$11,919

B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 OBRA Active Treatment	$89,905	0.00%	100.00%	-	$89,905
2 OBRA Residential	867,658	98.21%	1.79%	852,145	15,513
3 Direct Care Wage Increase #2 - 100% MOE	187,540	100.00%	0.00%	187,540	-
4 Direct Care Wage Increase #2 - 100% MOE	124,896	100.00%	0.00%	124,896	-
5 Total	$1,269,999			$1,164,581	$105,418

II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense
A. Total - Specialized Managed Care	$6,729,501	$5,868,432
B. Maintenance of Effort - Summary	1,164,581	1,164,581
C. Net Specialized Managed Care (A-B)	$5,564,920	$4,703,851

III. State/General Fund Formula Funding		MDCH
A. GF/Formula - State and Community Managed Programs	Authorization	Expense
1 State Managed Services	$347,275	$166,268
2 MDCH Risk Authorization - MDCH Approved for Use	2,030	2,030
3 Community Managed Services	1,876,582	1,905,776
4 Total State and Community Programs - GF/Formula Funding	$2,225,887	$2,074,074
B. Maintenance of Effort - Summary	105,418	89,004
C. Categorical, Special And Designated Funds		
1 Respite Grant (Tobacco Tax)	34,400	34,400
2 Other	-	-
3 Total Categorical, Special and Designated Funds	$34,400	$34,400
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$2,086,069	$1,950,670

Schedule F
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/00

	Specialized Managed Care	Formula Funds
IV. Shared Risk Arrangement		
A. Operating Budget - Exclude MOE and Categorical Funding	$5,564,920	$2,086,069
B. MDCH Share - Exclude MOE and Categorical Funding	4,703,851	1,950,670
C. Surplus (Deficit)	$861,069	$135,399
D. Risk Band - 5% of Operating Budget (A x 5%)	$278,246	$104,303

V. Cash Settlement	MDCH Share	Savings or Carryforward	Total	Grand Total
A. MDCH Obligation				
1 Specialty Managed Care (Net of MOE)	$4,703,851	$278,246	$4,982,097	
2 GF/Formula Funding (Net of Categorical and MOE)	1,950,670	104,303	2,054,973	
3 MOE Specialty Managed Care MDCH Obligation	1,164,581	-	1,164,581	
4 MOE GF/Formula Funding MDCH Obligation	89,004	4,495	93,499	
5 Categorical - MDCH Obligation	34,400	-	34,400	
6 Total - MDCH Obligation				8,329,550
B. Advances - Prepayments				
1 Specialized Managed Care			6,729,501	
2 GF/Formula Funding - (Include MDCH Risk Authorization)			1,715,165	
3 Purchase of Services			347,275	
4 Categorical Funding			34,400	
5 Total Prepayments				8,826,341
C. Balance Due MDCH				496,791
D. Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			166,268	
Actual Payments to MDCH			20,094	
Balance Due MDCH				146,174
E. Net Balance Due MDCH				$642,965
Prior Settlements (net of $7,990 prior year fee for services)				(29,046)
Balance Due to MDCH				$613,919

Schedule G
Financial Status Report
October 1, 1998 through September 30, 1999

	REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Revenues Not Otherwise Reported	$435,461	-	$435,461
B.	Substance Abuse Total	$549,558	-	$549,558
C.	Earned Contracts (non DCH) Total	$267,006	2,291	$269,297
1	CMH to CMH	-	-	-
2	Other	267,006	2,291	269,297
D.	MI Child - Mental Health	$4,677	-	$4,677
E.	Local Funding Total	$442,633	(2,291)	$440,342
1	Special Fund Account (226(a))	90,346	(2,291)	88,055
2	Title XX Replacement	8,200	-	8,200
3	All Other	344,087	-	344,087
F.	Reserve Balances - Planned for use	-	-	-
1	Carryforward -Section 226(2)(b)(c)	-	-	-
2	Internal Service Fund	-	-	-
G.	DCH Earned Contracts Total	$74,517	-	$74,517
1	PASARR	22,233	-	22,233
2	Block Grant for CMH Services	50,000	-	50,000
3	DD Council Grant	2,284	-	2,284
4	Alzheimer's Grant	-	-	-
H.	Gross Medicaid Total	$6,361,809	-	$6,361,809
1	Medicaid - Specialty Managed Care	6,361,809	-	6,361,809
2	Children's Waiver	-	-	-
I.	Reimbursements Total	$318,071	-	$318,071
1	1st and 3rd Party	-	-	-
2	SSI	318,071	-	318,071
J.	State General Funds Total	$2,106,931	-	$2,106,931
1	Formula Funding	1,748,812	-	1,748,812
2	Categorical Funding	34,400	-	34,400
3	State Services Base	318,541	-	318,541
4	Risk Authorization	5,178	-	5,178
K.	Grand Total Revenues	$10,560,662	-	$10,560,662
L.	Estimated MDCH Obligation (G+H+J)	$8,543,257	-	$8,543,257

Schedule G
Financial Status Report
October 1, 1998 through September 30, 1999

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	$10,285,375	($370,506)	$9,914,869
B.	Expenditures Not Otherwise Reported	$504,855	$0	$504,855
C.	Substance Abuse Total	$549,557	($7,949)	$541,608
D.	Earned Contracts (Non MDCH) Total	$267,006	$2,291	$269,297
1	CMH to CMH	-	-	-
2	Other Earned Contracts	267,006	2,291	269,297
E.	MI Child - Mental Health	$4,677	$0	$4,677
F.	Local Total	$64,151	$0	$64,151
1	Local Cost for State Provided Services	64,151	-	64,151
G.	Expenditures From Reserve Balances	$0	$15,384	$15,384
1	Carryforward - Sec 226(2)(b)(c)	-	15,384	15,384
H.	MDCH Earned Contracts Total	$74,517	$0	$74,517
1	PASARR	22,233	-	22,233
2	Block Grant for CMH Services	50,000	-	50,000
3	Path/Homeless Grant	2,284	-	2,284
4	Alzheimer's Grant	-	-	-
I.	Matchable Services (A-(B through H))	$8,820,612	($380,232)	$8,440,380
J.	Payments to MDCH for State Services	$238,209	$0	$238,209

Schedule G
Financial Status Report
October 1, 1998 through September 30, 1999

	EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
K.	Specialty Managed Care Service Total	$6,555,079	($269,604)	$6,285,475
1	100% MDCH Matchable Services	3,284,151	(111,643)	3,172,508
2	All SSI and Other Reimbursements	318,071	-	318,071
3	Net MDCH Share for 100 % Services (K1-K2)	2,966,080	(111,643)	2,854,437
4	90/10 Matchable Services	3,270,928	(157,961)	3,112,967
5	Medicaid Federal Share	1,724,433	(83,277)	1,641,156
6	Other Reimbursements	-	-	-
7	10% Local Match Funds	154,650	(7,468)	147,181
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	1,391,845	(67,216)	1,324,630
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	6,082,358	(262,136)	5,820,223
L.	GF Categorical and Formula Services Total	$2,027,324	($110,628)	$1,916,696
1	100% MDCH Matchable Services	353,521	(25,841)	327,680
2	All SSI and Other Reimbursements	-	-	-
3	Net GF and Formula for 100% Services (L1-L2)	353,521	(25,841)	327,680
4	90/10 Matchable Services	1,673,803	(84,788)	1,589,015
5	Reimbursements	-	-	-
6	10% Local Match Funds	152,088	6,814	158,902
7	Net GF and Formula for 90/10 Services (L4-L5-L6)	1,521,715	(91,602)	1,430,113
8	Total MDCH GF and Formula (L3+L7)	1,875,236	(117,443)	1,757,793
M.	Children's Waiver - Total	-	-	-
N.	Unobligated Spending Authority Total	-	-	-
O.	Total Local Match Funds (K7+L6)	$306,738	($654)	$306,083
P.	Total MDCH Share of Expenditures (J+K9+L8+M)	$8,195,803	($379,579)	$7,816,225

Schedule H

Explanation of Audit Adjustments

October 1, 1998 through September 30, 1999

Revenues

Earned Contracts (non-MDCH) **$2,291**

To reclassify QHP revenue as Earned Contracts. (finding 4)

Local Funding Total **(2,291)**

To reclassify QHP revenue as Earned Contracts. (finding 4)

Expenditures

Gross Total Expenditures **(370,506)**

($257,317) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($135,879) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$22,690 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

Substance Abuse Other **(7,949)**

To remove expenditures related to payments to AVCMHA Foundation. (finding 1)

Earned Contracts (non-MDCH) **2,291**

To reclassify QHP revenue as Earned Contracts. (finding 4)

Schedule H – FY 1998-1999 (continued)

Expenditures from Reserve Balances	**15,384**

To adjust General Fund Carryforward for FY 97-98 Foundation rent. (finding 1)

Matchable Services	**(380,232)**

($249,368) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($15,384) to adjust General Fund Carryforward for FY 97-98 Foundation rent. (finding 1)

($135,879) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$22,690 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

($2,291) to reclassify QHP revenue as Earned Contracts. (finding 4)

Specialty Managed Care Service Total	**(269,604)**

($195,132) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($89,473) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$15,001 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

Schedule H – FY 1998-1999 (continued)

GF Categorical and Formula Services Total **(110,628)**

($54,236) to remove expenditures related to payments to AVCMHA Foundation. (finding 1)

($15,384) to adjust General Fund Carryforward for FY 97-98 Foundation rent. (finding 1)

($46,406) to decrease by the amount of disallowed vehicles, computers, and equipment. (finding 2)

$7,689 to increase by the amount of depreciation attributable to capitalized vehicles, computers, and equipment. (finding 2)

($2,291) to reclassify QHP revenue as Earned Contracts. (finding 4)

GF Categorical and Formula Services 10% Local Match **15,293**

To increase 10% Local Match to required amount.

Schedule I
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/99

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Savings or Carryforward	Total MDCH Share
A. Maintenance of Effort - Expenditures					
1 OBRA Active Treatment	$89,905	-	$89,905	-	$89,905
2 OBRA Residential	867,658	629,692	237,966	-	867,658
3 Residential Direct Care Wage Increase #1 - 100% MOE	187,540	93,772	93,768	-	187,540
4 Residential Direct Care Wage Increase #2 - 100% MOE	62,448	49,409	13,039	-	62,448
5 Total	$1,207,551	$772,873	$434,678	-	$1,207,551
6 Maintenance of Effort - Lapse					

B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 OBRA Active Treatment	$89,905	0.00%	100.00%	-	$89,905
2 OBRA Residential	867,658	72.57%	27.43%	629,692	237,966
Direct Care Wage Increase #1 - 100% MOE	187,540	50.00%	50.00%	93,772	93,768
3 Direct Care Wage Increase #2 - 100% MOE	62,448	79.12%	20.88%	49,409	13,039
4 Total	$1,207,551			$772,873	$434,678

II. Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense
A. Total - Specialized Managed Care	$6,361,809	$5,820,223
B. Maintenance of Effort - Summary	772,873	772,873
C. Net Specialized Managed Care (A-B)	$5,588,936	$5,047,350

III. State/General Fund Formula Funding A. GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense
1 State Managed Services	$318,541	$238,209
2 MDCH Risk Authorization - MDCH Approved for Use	5,178	5,178
3 Community Managed Services	1,783,212	1,752,615
4 Total State and Community Programs - GF/Formula Funding	$2,106,931	$1,996,002
B. Maintenance of Effort - Summary	434,678	434,678
C. Categorical, Special And Designated Funds		
1 Respite Grant (Tobacco Tax)	34,400	34,400
2 Other		
3 Total Categorical, Special and Designated Funds	$34,400	$34,400
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	$1,637,853	$1,526,924

Schedule I
Contract Reconciliation and Cash Settlement Summary
Fiscal Year Ended 9/30/99

	Specialized Managed Care	Formula Funds
IV. Shared Risk Arrangement		
A. Operating Budget - Exclude MOE and Categorical Funding	$5,588,936	$1,637,853
B. MDCH Share - Exclude MOE and Categorical Funding	5,047,350	1,526,924
C. Surplus (Deficit)	$541,586	$110,929
D. Risk Band - 5% of Operating Budget (A x 5%)	$279,447	$81,893

V. Cash Settlement	MDCH Share	Savings or Carryforward	Total	Grand Total
A. MDCH Obligation				
1 Specialty Managed Care (Net of MOE)	$5,047,350	$279,447	$5,326,797	
2 GF/Formula Funding (Net of Categorical and MOE)	1,526,924	81,893	1,608,817	
3 MOE Specialty Managed Care MDCH Obligation	772,873	-	772,873	
4 MOE GF/Formula Funding MDCH Obligation	434,678	-	434,678	
5 Categorical - MDCH Obligation	34,400	-	34,400	
6 Total - MDCH Obligation				8,177,565
B. Advances - Prepayments				
1 Specialized Managed Care			6,361,809	
2 GF/Formula Funding - (Include MDCH Risk Authorization)			1,612,991	
3 Purchase of Services			318,541	
4 Categorical Funding			34,400	
5 Total Prepayments				8,327,741
C. Balance Due MDCH				150,176
D. Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			238,209	
Actual Payments to MDCH			-	
Balance Due MDCH				238,209
E. Net Balance Due MDCH				$388,385
Prior Settlement (net of $1,109 prior year fee for services)				(97,210)
Balance Due to MDCH				$291,175

Corrective Action Plan

Finding Number: **1**

Page Reference: 4

Finding: Unallowable Rent Paid to the AVCMH Foundation

AVCMHA improperly reported lease payments made to the AuSable Valley Community Mental Health Foundation ("Foundation") in violation of the MSSSC, the Mental Health Code, and OMB Circular A-87.

Recommendation: Implement policies and procedures to report ownership costs for real property in compliance with the MSSSC, the Mental Health Code, and applicable regulations.

Amend FY 2001-2002, FY 2002-2003, and FY 2003-2004 FSRs and Contract Reconciliation and Cash Summaries to reduce reported expenditures for lease payments to the Foundation that exceeded the actual costs of ownership.

CMHSP Comments: AVCMHA stated that they do not agree with the adjustment. AVCMHA referenced a settlement letter from MDCH dated November 7, 1997 regarding a FY 1993-1994 audit, stating that they believe that this agreement completely pre-empts the MDCH's position on this matter and that the addendum to this letter totally resolves this issue. AVCMHA summarized the content of the letter and addendum, stating that MDCH agreed that the steps described in that letter comprise the full extent of any payback responsibility for which the Board would have regarding any issues relating to its relationship to the Foundation. AVCMHA also noted that a limitation was not placed on this language, either by the amount of time or by the scope of the payback responsibility; and that the intent of the parties was that the agreement was reached as full and final resolution of these issues.

AVCMHA addressed the contingency required in the agreement letter. The only contingency that was included was the immediate dissolution of the Foundation. The addendum then clarifies that the immediate dissolution was subject to an understanding that the Foundation is a legal corporation with legal liabilities and that those legal liabilities must be properly dealt with in the process of the dissolution. AVCMHA stated that they consider this to be an understanding by the parties that a period of time would be necessary to fulfill those liabilities and accomplish the process of dissolution. The Foundation's legal liabilities have since been resolved and the dissolution has taken place.

AVCMHA believes that even though they have a strong case against the legal merits of the finding, the only case that needs to be made is that there is a valid existing agreement (the November 1997 settlement letter) which completely pre-empts MDCH's position on this matter.

AVCMHA further stated that there is nothing in the explanation of the finding; and they are not aware of any other authority not referenced in the finding, which would make these expenditures improper. AVCMHA requested that the finding be removed from the audit.

Corrective Action: None necessary, none taken according to AVCMHA.

Anticipated Completion Date: Not applicable.

MDCH Response: The November 7, 1997 letter represents nothing more than a settlement of the FY 1993-1994 audit. AVCMHA did not dispute the audit finding that the actual costs plus finance charges for the seven buildings have been reimbursed in full through the financial reporting process. The FY 1993-1994 settlement agreement was not a waiver to continue to charge the state and federal government for payments to the Foundation in excess of any related underlying costs. Regardless, the MSSSC, Section 3.6, states that no other understanding, oral or otherwise, regarding the subject matter of the Contract shall be deemed to exist or to bind any of the parties hereto. Therefore, the contents of any prior agreement that conflict with the requirements of the MSSSC, became null and void upon signing of the MSSSC. Consequently, rent paid to the Foundation and charged to MDCH from October 1, 1998 forward must comply with the terms of the MSSSC.

MDCH plans to perform a follow-up audit in January 2006.

Corrective Action Plan

Finding Number: **2**

Page Reference: 11

Finding: Improper Reporting of Capital Asset Purchases

AVCMHA did not report purchases of vehicles, computers, and equipment on the FSRs in compliance with OMB Circular A-87 and the MSSSC.

Recommendation: Adopt policies and procedures to ensure that expenses related to capital asset purchases are reported in compliance with OMB Circular A-87 and the MSSSC.

CMHSP Comments: AVCMHA stated that they do not agree with the adjustment. AVCMHA stated that the requirement to depreciate capital assets is not in the MSSSC and that the only reference to OMB Circular A-87 in the MSSSC that they are aware of was in Section 8.6. This section mentions the adherence to Generally Accepted Accounting Principles (GAAP) while OMB Circular A-87 shall guide the program accounting procedures. AVCMHA believes that the use of both "adhere" and "guide" in the same paragraph illustrates a different standard of responsiveness. AVCMHA stated that if OMB Circular A-87 were a requirement, then the contract would have used the word "adhere" instead of "guide."

AVCMHA stated that they applied GAAP for Governmental Units during the fiscal years audited, which does not call for depreciation in governmental funds, but direct expensing. In 2003, AVCMHA adopted Governmental Accounting Standards Board (GASB) Statement 34 that required the capitalization of assets. Currently, all assets with costs of $1,000 or more are capitalized and depreciated over the assets' useful lives.

AVCMHA stated that there is no other indication in the contract that requires the application of depreciation to capital assets during the fiscal years audited. AVCMHA also stated that they received authoritative statements from MDCH prior to and during the fiscal years audited, dismissing the applicability of OMB A-87.

AVCMHA stated that there is nothing in the finding and they are unaware of any other authority not referenced in the finding that would make these expenditures improper. AVCMHA requested that the finding be removed from the audit.

Corrective Action: None needed, none offered according to AVCMHA.

Anticipated Completion Date: Not applicable.

MDCH Response: The MSSSC states that OMB Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87 requires that depreciation or a use allowance be used to allocate cost over the useful life of a fixed asset. MDCH's audit adjustments reflect the implementation of this provision.

AVCMHA stated that they followed GAAP when reporting asset purchases for a governmental entity. OMB Circular A-87 states that unless it is otherwise provided for in the Circular, costs shall be determined in accordance with generally accepted accounting principles. Since the depreciation of capital assets is addressed in OMB Circular A-

87, GAAP standards of the modified accrual basis of reporting asset costs do not apply to Financial Status Report management.

However, any conflict between the modified accrual basis of accounting recommended in GAAP verses OMB Circular A-87 is irrelevant since the MSSSC, Attachment 8.9.1, Section 1.3 - Financial Status Report requires the CMHSP to use accrual accounting. Under the accrual basis, property, plant, and equipment purchases are to be capitalized and depreciated over their economic life, which is consistent with OMB Circular A-87. Therefore, the contract does in fact indicate the application of depreciation for capital assets during the fiscal years audited.

Although AVCMHA stated that they received authoritative statements from MDCH prior to and during the fiscal years audited, dismissing the applicability of OMB Circular A-87, specific documentation of these statements was never provided. Regardless, the MSSSC, section 3.6 states that no other understanding, oral or otherwise, regarding the subject matter of this Contract shall be deemed to exist or to bind any of the parties hereto. Therefore, any correspondence prior to or after the signing of the contract does not alter the requirements of the MSSSC.

OMB Circular A-87 makes reference to its own applicability to organizations that receive Federal awards under cost reimbursement contracts. OMB Circular A-87 states that the principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards. Since the MSSSC is a cost-settled agreement involving a Federal award, the principles documented in OMB Circular A-87 shall be applied to the Financial Status Report.

Corrective Action Plan

Finding Number: **3**

Page Reference: 13

Finding: Medicaid Savings Used as Local Match

AVCMHA used Medicaid Savings as local match in FY 2000-2001 and in FY 1999-2000 in violation of the MSSSC.

Recommendation: Implement policies and procedures to ensure Medicaid Savings is used in compliance with the MSSSC.

CMHSP Comments: AVCMHA stated that they do not agree with the adjustment. AVCMHA denied that they used Medicaid Savings as local match in violation of the contract. AVCMHA further disagreed that the Foundation contributions are not eligible sources of local match revenue according to the Contract. AVCMHA also denied that they misrepresented Foundation contributions as eligible sources of local match revenue.

AVCMHA referenced the FY 1993-1994 settlement letter dated November 1997 from MDCH. AVCMHA believes that the letter resolved any issues relating to the relationship between AVCMHA and the Foundation, and the issue should be removed as an item of payback responsibility.

AVCMHA denied that the contributions from the Foundation are ones that are received from a contracting agency providing services. AVCMHA stated that throughout the MSSSC any reference to services applies to either program or administrative services; and nowhere applies to rental agreements. An opinion from AVCMHA's independent auditor stated that rent paid to the Foundation is not a purchase of services and that donations made by the Foundation would be considered local funds. AVCMHA disagreed with the statement made by MDCH that since the contributions from the Foundation do not qualify as local match, the Medicaid Savings could not be used to offset their "loss."

AVCMHA stated that Medicaid Savings used as local match in FY 2000-2001 and FY 1999-2000 were used in accordance with the requirements of the contract. AVCMHA referenced Section 8.3.9 of the MSSSC that states that Medicaid Savings may be used as local match and is to be documented in the Reinvestment Plan. AVCMHA also stated that they identified the loss of local match as being derived from the Foundation in the Reinvestment Plan and that MDCH was aware of the source of the funds at the time of approval. AVCMHA also noted that this section of the contract is not subject to the same Reinvestment Plan requirements that apply to the use of Medicaid Savings described in Section 8.8.2.3 of the MSSSC.

AVCMHA stated that there is nothing in the finding and they are unaware of any other authority not referenced in the finding that would make these expenditures improper. AVCMHA requested that the finding be removed from the audit.

Corrective Action: None called for, none offered according to AVCMHA.

Anticipated Completion Date: Not applicable.

MDCH Response: The settlement letter from MDCH dated November 7, 1997 was a settlement of the FY 1993-1994 audit only. Additionally, the MSSSC, Section 3.6, states that no other understanding, oral or otherwise, regarding the subject matter of the Contract shall be deemed to exist or to bind any of the parties hereto. Consequently, issues relating to the relationship between AVCMHA and the Foundation are governed by the MSSSC rather than a prior settlement agreement.

AVCMHA disagreed that the contributions from the Foundation do not qualify as local match funds. The MSSSC, Section 8.3.8, states, in part;

> *Local funds exclude grants or gifts received by the County, the CMHSP, or agencies contracting with the CMHSP, from an individual or agency contracting to provide services to the CMHSP.*
>
> *An exception may be made, where the CMHSP can demonstrate that such funds constitute a transfer of grants or gifts made for the purposes of financing mental health services, and are not made possible by CMHSP payments to the contract agency that are claimed as matchable expenses for the purpose of state financing.*

The operative phrase is that funds were made possible by CMHSP payments to the contract agency that are claimed as matchable expenditures for the purpose of state financing. Therefore, whether the agency was a lessor or services contractor is irrelevant. The fact that payments made to the Foundation were claimed as matchable is controlling. Since the Foundation was donating back funds that were claimed by AVCMHA as matchable expenditures, MDCH was accurate in stating that the contributions from the Foundation do not qualify as local match revenue.

AVCMHA referenced the MSSSC, Section 8.3.9 that allows the use of Medicaid Savings as local match that shall be described in the

Reinvestment Plan. AVCMHA stated that Section 8.3.9 is not subject to the same requirements that apply to the use of Medicaid Savings described in Section 8.8.2.3. There is nothing in the contract that states the absence of Reinvestment Plan criteria under Section 8.3.9 (which is a subsection of Revenue Sources for Local Obligation) dismisses the Section 8.8.2.3 requirements for a Reinvestment Plan (a subsection of Financial Planning – Savings and Reinvestments). AVCMHA was also directed in their FYE 1998-1999 Cost Settlement letter dated October 2000 to refer to Section 8.8.2.3 when expending the Medicaid Savings according to a Reinvestment Plan. Therefore, even though Medicaid Savings may be used a local match, it must be spent according to the four criteria listed under Section 8.8.2.3.

AVCMHA stated that they identified the loss of local match funds in the Medicaid Reinvestment Plan as being derived from the Foundation and that MDCH was aware of the source of the funds at the time of approval. However, AVCMHA did not inform MDCH that the contributions they had been receiving from the Foundation were from a related party whose main source of revenue were payments from AVCMHA that were reported as matchable expenditures and paid by MDCH.

Regardless of MDCH's approval of using Medicaid Savings as local match, and whether or not MDCH had knowledge of the source of the Foundation donations, the Medicaid Savings was NOT used to meet AVCMHA's local match obligation. AVCMHA had sufficient other sources of local revenue to meet their local match obligation. Consequently, AVCMHA's Medicaid Savings that was approved for use as local revenue, simply allowed AVCMHA to create excess local funds that were not used to provide services in the year intended. Rather, the excess local funds only served to increase AVCMHA's fund balance. The use of Medicaid Savings to increase AVCMHA's fund balance certainly does not comply with the Medicaid Savings Reinvestment

Strategy requirements outlined in Section 8.8.2.3 of the MSSSC whereby Medicaid Savings are to be directed to support services to the Medicaid population.

Corrective Action Plan

Finding Number: **4**

Page Reference: 16

Finding: Errors in Reported Earned Contracts Revenues and Expenditures

AVCMHA did not properly report revenues and expenditures from earned contracts with Qualified Health Plans ("QHP") in FY 2000-2001, FY 1999-2000, and FY 1998-1999 in compliance with the MSSSC and FSR instructions.

Recommendation: Implement policies and procedures to ensure that all costs related to earned contracts are properly reported in compliance with the MSSSC and FSR instructions.

CMHSP Comments: AVCMHA stated that they do not agree with the adjustment. AVCMHA disagreed with MDCH's determination that they did not properly report revenues and expenditures from earned contracts with qualified health plans in fiscal years 1998-1999, 1999-2000 and 2000-2001. AVCMHA stated that this finding is based on MDCH's belief that it was inappropriate to report revenue received from QHPs as local revenue and to report the expenditures associated with providing this benefit as matchable expenditures.

AVCMHA stated that they relied on instructions communicated through the MDCH Specialty Community Mental Health Services and Supports Plan Requirements and Technical Information (Plan Requirements), dated November 1, 1998. The memorandum states that Medicaid funds may lose their identity as public funds and become the equivalent of private insurance dollars. AVCMHA believes that whether or not this position is supportable, since they relied on MDCH's instructions they should be relieved of any payback obligation on this issue.

AVCMHA stated that it is not true that Medicaid funds cannot become local funds. AVCMHA refers to the MSSSC, Section 8.3.9 that states that Medicaid Savings may be used as local match and relied on this section for their decision to report revenue from the QHPs as Public Act 423 funds.

AVCMHA stated that it is generally agreed that fee revenue from the QHPs may be converted into local funds per PA 423, which can be used as local match. AVCMHA believes that this revenue, under the instruction of MDCH, is no different than revenues received from private insurance companies or from other first or third party payers that can be used as local match for State funds per PA 423.

AVCMHA stated that the finding is without justification and that the action by the Board was taken on the basis of the Contract and other instructions provided by MDCH and that no payback requirement is justified in this case. AVCMHA also stated that there is nothing in the explanation of the finding, and they are unaware of other authority not referenced in the finding, which would make these expenditures improper. AVCMHA requested that the finding be removed from the audit.

Corrective Action: None called for, none offered according to AVCMHA.

Anticipated Completion Date: Not applicable.

MDCH Response: AVCMHA disagreed that earned contracts were not properly reported. The MSSSC, Attachment 8.9.1, Section 2.4.3 defines earned contracts as arrangements for the sale of services or goods and requires reporting of earned contract expenditures on the FSR Expenditure page, Row D: Earned Contracts – Expenditures. Since the cost of the 20 outpatient visits services contracted by the QHPs were omitted from Row D, earned contracts were not properly reported.

AVCMHA stated that whether or not the position regarding changing the nature of the Medicaid funds is supportable, they are relieved of any payback requirement because they relied on instruction from MDCH. The Plan Requirements state that funds paid to the QHPs by MDCH lose their identity as public funds and become the equivalent of private insurance dollars; funds that are then paid to the CMHSPs for the 20 outpatient services qualify for PA 423 funds. Federal requirements do not support this treatment of Medicaid funds. Changing the nature of Medicaid funds would be an inappropriate subsidy for services for the uninsured and a violation of Section 1903 of the Social Security Act, which requires the use of Medicaid funds for Medicaid recipients. Also, the Public Mental Health Manual (Volume IV, Section 001, Subject 003, Chapter F, dated 9/27/89, page 2) excludes Medicaid funds from being included in the special fund account, which includes PA 423 funds.

AVCMHA believes that since the MSSSC, Section 8.3.9 states that Medicaid Savings can be used as local match, the Medicaid funds paid to a QHP should be able to be converted into local match. The MSSSC, Section 8.3.9 describes Medicaid savings as a potential revenue source for the CMHSP's local match obligation and does not allow for the nature of the Medicaid funds to change or lose their identity.

AVCMHA stated that the QHP revenues are no different than revenues received from private insurance companies or from a first or third-party payer. The difference between insurance companies or first or third-party payers and contracts with the QHP is that the CMHSP must cover its costs of providing the 20 outpatient services. The Plan Requirements note that costs exceeding revenue received of a priority population (first and third-party payers) can be offset with General Funds. The Plan Requirements continue to explain that the 20 outpatient visits contracted with a QHP do not meet the priority population criteria. Therefore, not only is there the prohibition against Medicaid funds losing their identity, AVCMHA must also cover its cost of providing the contracted 20 outpatient services.

Corrective Action Plan

Finding Number: **5**

Page Reference: 20

Finding: Board Administration Cost Allocation Error

AVCMHA did not properly allocate Board Administration expenses to outpatient services in FY 2000-2001 in compliance with OMB Circular A-87 and the MSSSC.

Recommendation: Implement policies and procedures to ensure that all Board Administration costs are properly allocated in compliance with OMB Circular A-87 and the MSSSC.

CMHSP Comments: AVCMHA stated that their review of the data is in substantial agreement with the MDCH finding in this matter. AVCMHA also stated that OMB Circular A-87, as a guide on this issue, does not conflict with Generally Accepted Accounting Principles to which they are contractually bound to adhere. Appropriate corrective action is being taken.

Corrective Action: AVCMHA described the adjustment of Medicaid costs for FY 2000-2001 being reduced by $42,255 and the General Fund expenditures being increased by $42,255. AVCMHA stated that this would be accomplished by a correction in the record. AVCMHA also noted that since there was already a substantial expenditure of General Fund revenues to support Medicaid services, no actual exchange of funds is necessary in order to make this correction.

Anticipated
Completion Date: 60 Days after acceptance by both parties of the final audit report.

MDCH Response: AVCMHA stated in the Corrective Action that since there was already a substantial expenditure of General Fund revenues to support Medicaid services, no actual exchange of funds is necessary. After audit adjustments General Fund expenditures are no longer necessary to cover Medicaid services; therefore, the financial adjustment will remain.

Corrective Action Plan

Finding Number: **6**

Page Reference: 21

Finding: Undocumented Payroll Expense Allocation

AVCMHA did not document their payroll expense allocation in compliance with the MSSSC and OMB Circular A-87.

Recommendation: Implement policies and procedures for personnel cost allocation documentation that are in compliance with the MSSSC and OMB Circular A-87.

CMHSP Comments: AVCMHA stated that they are in agreement with the audit finding on this item. AVCMHA also noted that OMB Circular A-87, as a guide on this issue, does not conflict with Generally Accepted Accounting Principles to which they are contractually bound to adhere. AVCMHA also agreed from both the standpoint of improving the documentation in this area and also from the observation that there was no material impropriety in the allocation of payroll costs. AVCMHA stated that steps are presently being taken to improve the cost allocation process and to reflect the improvement in agency policy and procedures.

Corrective Action: AVCMHA stated that a new method of cost allocation, which is in compliance with OMB Circular A-87, would be applied for employees working in multiple costs centers and the policies and procedures will reflect the change.

Anticipated
Completion Date: January 30, 2006

MDCH Response: None.

Corrective Action Plan

Finding Number: **7**

Page Reference: 23

Finding: FIA Home Help Services Expenditure Reporting Error

AVCMHA improperly supplemented the cost of the Michigan Family Independence Agency ("FIA") Home Help personal care services to CMHSP consumers in violation of the MSSSC.

Recommendation: Implement policies and procedures to report FIA Home Help expenditures as Earned Contracts in compliance with the MSSSC and the related MDCH Policy Hearing Authority Decision.

CMHSP Comments: AVCMHA denied that the supplementing of services to CMHSP consumers was done in a matter that violated the MSSSC. AVCMHA stated that no services were paid by MDCH that were the responsibility of another agency. AVCMHA noted that the clarification of this issue that was provided in 2002 by the DCH Director listed only services required to be covered as Home Help covered services.

AVCMHA stated that their staff not only provides services that support independent living situations identified as Home Help services, but also supplement the visit with mental health services of training people to live independently. At the present time, it is not possible to extricate the mental health services from the Home Help service in the client file since in most cases the two are provided concurrently. AVCMHA noted that it is not possible to secure someone at the Home Help rate and expect them to obtain the level of training required for mental health services.

AVCMHA stated that an integrated service approach is used. The Department of Human Services (previously named FIA) is charged for the Home Help portion of the service and Medicaid or General Fund is used to cover the primary mental health service piece. This has been their practice for several years. AVCMHA stated that they are presently reviewing the documentation to be sure that the record properly reflects the distribution of services.

AVCMHA also noted that MDCH recognized that no financial adjustment was made because the issuance of the Director's clarification was after the end of the fiscal years audited. However, AVCMHA does not believe that an adjustment would have been called for in any case because the services being provided are comprised of both mental health services and the Home Help services.

Corrective Action: AVCMHA stated that records of individuals receiving a combination of supportive living training services and Home Help services would be reviewed to ensure that the record properly displays the requirement for both elements of the service. This review will be done for each individual receiving the integrated services of Home Help and mental health by the time their next plan of service is written.

Anticipated Completion Date: September 30, 2006.

MDCH Response: None.

Corrective Action Plan

Finding Number: **8**

Page Reference: 27

Finding: Deficiencies in Contract Management

AVCMHA did not properly manage their subcontracts in compliance with the MSSSC and sound business practices.

Recommendation: Implement a master control of contracts and implement policies and procedures to ensure uniformity of contracts, timely execution, and enforcement of terms.

CMHSP Comments: AVCMHA stated that they would take action to ensure adequate controls are maintained over the contracting process. AVCMHA also stated that they are not aware that the cited deficiencies have resulted in any financial or program risk but recognize the importance of maintaining such controls.

AVCMHA stated that very few services are contracted out due to AVCMHA's operations being largely a direct service operation. The primary service that AVCMHA contracts are the residential services for some consumers. The residential service contracts are maintained as an open panel due to the lack of providers who are able to supply the specialized types of residential services needed. AVCMHA also stated that the Northern Affiliation currently holds the inpatient contracts and are responsible for monitoring those contracts.

Corrective Action: AVCMHA stated that actions are being taken to implement a master control of contracts. The policy and procedure changes will be made to address the issues of uniformity of contracts, timely execution and enforcement of terms.

Anticipated Completion Date: January 31, 2006.

MDCH Response: None.

Corrective Action Plan

Finding Number: **9**

Page Reference: 28

Finding: Procurement Policy Deficiencies

AVCMHA's procurement policy and procedures did not contain the provisions of the Procurement Technical Requirement as required by the MSSSC.

Recommendation: Establish and implement procurement policies and procedures to ensure compliance with the MSSSC.

CMHSP Comments: AVCMHA stated that they comply with the provisions of the procurement technical requirement as required by the MSSSC. AVCMHA also stated that they would take action to establish policy and procedures that reflect their compliance.

Corrective Action: AVCMHA stated that the policy and procedures would be amended to reflect the compliance which is already present.

Anticipated Completion Date: January 31, 2006.

MDCH Response: None.

Corrective Action Plan

Finding Number: **10**

Page Reference: 29

Finding: Inadequate Services Documentation

AVCMHA did not properly document services provided to consumers as required by the MSSSC, OMB Circular A-87, and the Mental Health Code; and AVCMHA's Continuous Quality Improvement Work Plan did not identify the non-compliance issues as an Area of Focus even though AVCMHA's own review identified similar deficiencies.

Recommendation: Implement CQI procedures to improve services documentation as required by the MSSSC and other applicable laws and regulations. Also, implement procedures to ensure the integrity of the statistics used to allocate costs in compliance with the MSSSC.

CMHSP Comments: AVCMHA stated that it recognized that there were deficiencies in documentation of services in 2000-2001. According to AVCMHA, corrections have been made in AVCMHA's service documentation practices. These corrections include regular oversight by the continuous quality improvement council, quarterly reviews by the Northern Affiliation's Compliance Officer, a pre-billing audit process and a regular review by a utilization management function within the agency. AVCMHA believes that these changes meet the recommendations made by MDCH.

Corrective Action: Already taken as described above according to AVCMHA.

Anticipated
Completion Date: Already completed, as described above according to AVCMHA.

MDCH Response: None.